

Introduction to 13th Congress

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Basic reference text for the introduction presented by Mr G.J. Doornbos, Chairman of LTO Nederland, the Dutch organization for Agriculture and Horticulture, at the opening of the IFMA conference on Monday, July 8, 2002

Ladies and Gentlemen,

It is my pleasure to bid you a warm welcome to this six-day IFMA conference. Your itinerary in the coming days will carry the theme of 'Feed the world, Please the consumer and Maintain the environment'. In my introduction I will elaborate on these three notions. My illustrations will guide you through the developments at a global level, via the EU policy and the national developments in the Netherlands, to the grass roots and daily practice of agricultural traders in the Netherlands.

First of all, I would like to mention a few developments in outline. As you probably know, last year in November the agenda was drawn up in Qatar concerning a new round of negotiations in the context of the World Trade Organization, WTO. Key elements in this respect for agriculture and horticulture are the continuing process of liberalization and, in conjunction with this, the removal of trade barriers and tariff walls, as well as the phasing out of export subsidies.

While the EU subsidies are hotly debated, the US, on the other hand, forces up the subsidies drastically with the new Farm Bill. In discussions on a new world trade agreement, the topic of subsidies monopolizes the dispute. Other elements are at risk of being somewhat neglected. One example that comes to mind is the significant difference in moral ethics and values adhered to by people around the world. In this respect I would like to mention the development and the use of gmo's, or genetically modified organisms, the use of hormones, the notion of animal welfare and the importance of profitable agriculture and horticulture to sustain the quality of life in the countryside. In discussions on these topics, the question of who is right should not even be an issue. What is more important is that the differences of opinion on these subjects should be respected, and the various opinions should be integrated adequately into the trade policy. This should be done in a manner that prevents the differences of opinion from interfering with trade, which in many cases they do now.

I just mentioned sustaining the quality of life in the countryside. As for the US, as well as for France and other EU member states, this quality of life is considered the main argument in favour of maintaining the subsidies. Elsewhere in the world, basically the same issues are at play, since problems in agriculture lead to rural depopulation and uncontrolled urbanization. Moreover, even a more profound dimension is affected. In developing countries, the issues at stake are the prosperity of the entire nation and, more importantly, fighting the famine. In these countries, the majority of the population depend on agriculture as a source of income and food supply. That is why it is unacceptable that the subject of agriculture was scratched from the international agenda last year. The world leaders shifted their focus as well as their financial funds to the fight against

terrorism. An unjustified shift, in my opinion, since it completely disregards the reasons why people resort to terrorism in many cases. The arrears in economic and technical development, and the poverty and food shortage that are due in part to these arrears, are an important breeding ground for radical factions.

Besides this essential international aspect, there are more arguments in favour of promoting the development of agriculture on a world-wide scale. Seventy-five per cent of poor people live in rural areas and depend on agriculture. Moreover, there are still about 815 million people in the world who are starving. I use the word still because in 1996 the FAO established an action plan to fight starvation. The intention was to cut the number of 850 million starving people down to half over the period of time until 2015. We are lagging far behind our schedule. In this light the results of the World Food Conference of FAO in Rome in mid-June are exceptionally disappointing.

Unfortunately, too little notice has been taken of the cry for help of the International Federation of Agricultural Producers, IFAP, who said that it was time to stop talking and start fighting the hunger. The IFAP members drew the attention of government leaders world-wide to the crucial role that agriculture plays in reducing hunger. The majority of people in developing countries depend on agriculture for their food supplies. Every strategy to fight poverty should therefore begin with agriculture. IFAP mentioned a number of key aims in this respect, of which I would like to highlight a few:

- more loans to agriculture from financial institutions like the World Market;
- extra funds for the reinforcement of agricultural organizations and cooperatives in developing countries;
- finding an adequate solution to the growing power of multinational corporations who are dominating the food chain to an increasing extent.

The essence is that farmers should be able to meet the need for food, while at the same time producing enough to be able to generate trade and a proper income. The desired free trade mentioned earlier is an important impulse in this respect for deprived areas. In this context I would like to point out that the EU is currently the largest importer of agricultural products from underdeveloped countries. Therefore, our export subsidies definitely do not have only an adverse effect, as is often suggested. Nevertheless, the adverse effects should of course be expelled, without a shadow of a doubt.

Ladies and Gentlemen,

What I said before makes it clear that we have a long way ahead of us if we want to 'Feed the world'. In my view, the role of agriculture and horticulture in the more prosperous parts of the world should not be ignored in this respect. This is where I cross the bridge to the second part of the theme of the IFMA conference: 'Please the consumer', and in doing so, I take the discussion to a European level. In our prosperous Europe, the role of agriculture as a food producing industry is pushed to the background more and more. Earlier I already pointed out the role of agriculture in the prevention of deterioration of the countryside, and I mentioned the notion of multifunctional agriculture. The Western consumer, resting assured of his daily supply of richly varied, high-quality food, mainly views the countryside as an oasis of peace, space and green meadows. Thus, to an increasing extent, the countryside is allocated recreational and touristic functionalities. Other aspects, too, receive more and more attention, including the development and management of farmyard nature, the production of 'green' energy, the storage and supply of clean water, but also the accommodation of disabled people, drug addicts and people under detention. In EU countries we see a proliferation of these so-called broadened agricultural functions. In the Netherlands, we talk of green and blue services, a notion you will undoubtedly come across more often in the days ahead of you in our country.

According to EU research, as many as forty per cent of Dutch farmers and market gardeners earn a complementary income by means of this broadened agriculture. With this figure, we lag behind other EU member states. This development has the attention not only of the agricultural community, but also of policy-makers. Whereas by the end of the last century, price support in the EU was replaced by income support, the emphasis is now shifting towards compensation for landscape management. In EU terms, this involves a shift from income support in the so-called first pillar, aimed at market instruments, towards support for landscape management in the second pillar, aimed at landscape and nature preservation. To what extent this shift is taking place will become clear when the European Committee present their mid-term review. In the introduction of the EU agricultural policy for the period between 2000 and 2006, it was agreed that halfway through the term, the effects of the policy changes would be evaluated. I think that we have reason to be fairly satisfied with our current policy, which goes by the name of Agenda 2000. Surpluses have disappeared, partly due to which subsidies have been scaled down, the incomes of farmers and market gardeners reached a reasonable level on average, and the budget did not exceed the set limits.

Apart from the 'successes' I just described of the current policy, there are developments that should not escape our notice. In this respect I would like to mention the imbalance that is currently arising in the corn market and the dairy market, plus the fact that the beef market has not yet fully recovered from the huge dip as a result of the BSE crisis. In this respect I also want to take into consideration the sharp rise of the rate of the euro compared with the dollar. Partly due to the low rate of the euro in the past years, the costs of the common agricultural policy remained within the budget. This may change now that the euro is reaching a value that is nearly equal to the dollar. And as you will know, for a number of member states the costs of this policy are an important motive to make drastic adjustments in the agricultural policy. This concerns mostly the Netherlands, which country is supported in this by the other net payers to the EU: Germany, Great Britain and Sweden.

This so-called 'gang of four' seize the forthcoming enlargement of the EU by as many as ten new member states as an opportunity to reduce their EU policy costs. Prime minister Rasmussen of Denmark had every reason to show concern about the attitude of these countries just before he took up his duties as EU Chairman on July 1. He will not allow the enlargement of the EU to be 'held hostage' by a number of countries with financial claims, and he wants to reach an agreement on accession with the candidate member states in this half of the year. 'This historic opportunity should not be jeopardized for less than one thousandth of our annual production,' Rasmussen stated correctly. After all, the EU currently costs the member states one per cent of their gross national product. The enlargement would cause this amount, half of which goes to agricultural policy, to rise by one tenth of a per cent! LTO Netherlands repeatedly pointed out to their own government that erroneously, this limited cost increase seems to count more heavily than the advantage of political stability in Europe. The latter was an important argument in favour of European unification, and should remain so.

For LTO Netherlands, the costs are less important than the veterinary and phyto-sanitary aspects of the enlargement of the EU. As an exporter of agricultural products, enlargement would offer the Netherlands many opportunities, even if many (bulk) products can be produced much cheaper in Central and Eastern Europe. The Netherlands is known for its high quality level when it comes to agriculture and horticulture and its agricultural products. This status should not be jeopardized by freer trade with new member states, where the health condition of animals and plants is generally at a lower level. This is why for us, this aspect is the major spearhead of our policy. Despite all the discussions on subsidies, even in our own country, Dutch

agricultural traders derive the main share of their income from the market. This will remain so, and *should* remain so. LTO will test the propositions for the new EU policy critically with respect to this aspect.

As early as two weeks ago, propositions of EU Commissioner for Agriculture Fischler were leaked to the press. He sees a unique opportunity to improve sustainability in agriculture, in line with societal demands. On the one hand, over a period of seven years, income subsidies will be reduced by 20%. The budget that is thus released from the first pillar, is assigned another designation in the second pillar: compensation for environmental management, for certification of agricultural production, and for investments in animal welfare. In general, LTO is not happy with this change. The advantage is that the compensations from the second pillar, expressed in WTO terms, belong in the green box and are therefore not up for discussion in the negotiations concerning the world trade agreement. A disadvantage, however, is that measures from the second pillar entail a heavier administrative burden. This burden is currently the biggest cause for frustration for Dutch companies, representing a bottleneck for LTO that requires rapid elimination. The propositions by Fischler have a counteractive effect on this.

Furthermore, LTO is opposed to cutting down the first pillar in favour of the build-up of the second. We would much rather see the introduction of 'green preconditions' for relief payments in the first pillar, maintaining the current scope of the relief. An argument in favour of this is the administrative burden I just mentioned in the second pillar, and the relatively poor experience we have in the Netherlands with measures that come under the second pillar. To avoid misunderstandings, I want to make it clear that for LTO, also the preservation of subsidies is a motive for our plea. This despite the criticism on subsidies of the Dutch authorities and part of the Dutch population.

Ladies and Gentlemen,

At an earlier point I indicated that I hold the view that subsidies are given too much attention in our country. I will now address the part of my introduction that concerns national aspects. Many people in this country are under the impression that Dutch farmers heavily depend on the support from Brussels. I can refute this by presenting just a few figures. By the end of last month, the Dutch research institute LEI announced that the agricultural export value amounts to 45 billion euro. Despite the fact that the number of farmers and market gardeners declined considerably over the past years, totalling approximately 90,000 in 2001, the production value remained stable at approximately 20 billion euro. In comparison, the relief received from Brussels, amounting to approximately 500 million euro, is very limited. On average, the Netherlands is far under the level recently published by the OECD, which says that 31 per cent of the income of Western farmers consists of subsidies. As it is, this is already considerably less than the 58 per cent that was the rule in the mid-eighties, leaving Western farmers at the mercy of the quirks of the market to a greater extent.

Some sectors of industry, particularly potato starch production, corn production and beef production, strongly depend on EU subsidies, also in the Netherlands. Other than this, farmers and market gardeners receive relatively little financial support. Another feature of the Dutch agricultural sector is the intensity of production: high returns per animal and per surface unit. At the same time, we observe a strong position and growth of ornamental plant cultivation. In addition, as we can conclude from the figures presented by LEI, a strong expansion of scale is taking place on the one hand, with approximately 12 per cent of the companies accounting for as much as 43 per cent of production. On the other hand, the market focus in the Netherlands leads to enormous corporate diversity.

This diversity has an impact on the development and exchange of information and knowledge. I assume that it is common knowledge that this has been the driving force behind the growth and the strong position of the Dutch agricultural sector. The Netherlands is known for this throughout the world, and often serves as an example to other countries. To an increasing extent, highly specific knowledge is required, making it less relevant to other members of the sector. What is needed, therefore, is a higher degree of knowledge development and exchange of information, with all its consequences – including financial consequences – for research and education. In this light, let us not forget the decline in the total number of companies I just described.

Changing circumstances make higher and higher demands on farmers or market gardeners as corporate businessmen. What the notion of 'Please the consumer' means to the consumer is: deliver a cheap product, while taking into consideration the quality of the product and, by consequence, its safety as a food product. From a commercial point of view, we would much rather reverse the process, rounding it off by determining a realistic price for our products. Consumer demands, by the way, are the preconditions for the 'license to deliver', which Dutch farmers and market gardeners comply with excellently. It would be hard to explain otherwise that the Netherlands was the largest net exporter of agricultural products in the world for the past three years, ahead of countries like Australia and Argentina.

As I just mentioned, we, as businessmen, would like to receive a realistic price for our products. For many years now, the income of most entrepreneurs has been under pressure, in spite of their good performance on the sales market. This was caused by the required 'license to produce', in other words, the increasingly exacting government measures to improve the conditions of the environment and animal welfare, and all the expenses they entailed. As an example I would like to mention the environmental preservation charges in horticulture, which increased fivefold since 1990 to 100 million euro. Expectations are that this amount will even be doubled by 2010. Also in other sectors, environmental protection and animal welfare measures account for drastic increases in cost price, which cannot be recovered in higher selling prices of the product. This is where the difference in attitude between the Dutch as consumers and the Dutch as concerned members of society, takes its revenge.

In dialogue with the authorities, citizens do make demands on agricultural production, but consumers are not willing to pay for them. Worse still, representatives of the Netherlands Consumers' Association and even of companies like Unilever claim that consumers pay too much for their food. An argument in favour of this position is the difference between prices in the shops and on the world market. In taking this position, they completely disregard the fact that the world market is not a realistic market of supply and demand, but a residual market that is used to dump surpluses. The prices do not reflect the cost price of the products in any way whatsoever. Against this backdrop, the Consumers' Association's and Unilever's plea to abolish agricultural subsidies can hardly be taken seriously, especially if you consider the fact that Dutch consumers spend less than 12 per cent of their disposable income on food.

Before I round off, I would just like to draw your attention briefly to the third part of the theme: 'Maintain the environment'. The considerable efforts and investments of the past years in the agricultural sector have produced an effect. Dutch farmers and market gardeners achieved excellent results by reducing the use of chemical crop protection agents, the emission of global warming-related gases, the emission of ammonia and of nitrogen and phosphate residues. I feel that it is justified to say, therefore, that we have come a long way towards sustainable production, even though some areas still leave room for improvement.

The question, however, is at which price we are willing to realize sustainability. Economic sustainability should not be overlooked. We, at LTO, will continue to search, together with our members, for possibilities to have our costs recovered. For some part, EU subsidies for the promotion of countryside management can be helpful in this respect. The green and blue services mentioned earlier will offer opportunities, but I expect that this will continue to account for only a limited part of the income of farmers. We will have to keep on earning our living in the market predominantly, where, as I described earlier, our competitive position is under pressure. It is for this reason that LTO pleads for consistency with the EU policy in stipulating requirements in the area of environmental protection and animal welfare. It is there where we find our most important market, the market we cater for. We do this by improving the transparency of the production process, by means of certification of agricultural companies and by corporate social responsibility and sustainability. This places high demands on agricultural managers, whose complexion these days tends to be greyish from all the paperwork rather than tanned from working in the sun. We, at LTO, will mainly continue to explore the market in order to retain our position in this market. In doing so, we will keep on looking for possibilities to translate this strong position into sound profitability of the company. After all, that is why we are agricultural entrepreneurs.

Ladies and Gentlemen,

I have reached the conclusion of my argument. As participants in this IFMA conference, you will be treated to a very interesting and highly varied programme in the coming week. You will have ample opportunities to get acquainted with agriculture and horticulture in the Netherlands and to make your acquaintance with the corporate managers who work in this sector. A sector that, as I said before, serves as an example all over the world – and we would like to keep it that way. Results from research that LTO recently had conducted, show that Dutch farmers and market gardeners are proud of their work. They feel that their skills rank among the most highly qualified in international terms. We are not afraid to show this pride, and this conference is an excellent opportunity to do so. Again, I would like to express a warm welcome to you in the Netherlands, and I hope that this week will prove to be a wonderful learning experience for you all.

I thank you for your attention.